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ENTERPRISE DEVELOPMENT AND MARKET COMPETITIVENESS (EDMC)

QUARTERLY REPORT
JULY 2012 - SEPTEMBER 2012

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HIGHLIGHTS OF THE QUARTER

In the High Tech sector, a number of trainings were conducted, focusing on specialized mobile applications (with AUA in Yerevan and GITC in Gyumri), sales and marketing (Yerevan and Gyumri), financial analysis of HT companies, StartUp Bootcamp, and system engineering and parallel system design (Goris State University, combined with assistance to set up a regional company hub). GEDF was assisted in establishing business contacts with the automotive suppliers through Germany. Preparations took place for activities that will give results in the following quarter: grant competition for mobile applications development, ArmTech Congress in the USA, ICT Survey and Precision Engineering Action Plan.

In the Pharma/Biotech sector, trainings were provided on conducting GMP compliance inspections, good storage practice, effectiveness of medical representatives, and using CTD guidance for drug registration based on the translated guidance; as well as an international training for Drug Agency inspectors. GMP compliance pre-audits were conducted in five manufacturing companies. Armenian producers were supported to attend a specialized exhibition in Uzbekistan.

In the Food Processing sector, company pre-audits have started for introducing Organic standards and on food safety (HACCP) compliance. A local economic development assessment was completed for Bagratashen, which will generate possibilities for targeted support to the region during the next quarter.

In the Hospitality sector, trainings were provided on hospitality skills for B&B operators (Shikahogh and Khapan), hospitality skills for B&B operators (Tsav and Nerqin Hand) in Syunik marz. New tourism products were developed for the Khapan region, and a festival in Akhtala, Lory marz, was supported. All preliminary activities have been conducted to hold the international UN-WTO conference in Yerevan, and start work on the border visitor survey and the new national tourism portal.

GOA was supported in presenting investment opportunities to an international audience in Rome and in Vienna. The GOA Precision Engineering Action Plan is almost completed, and work is ongoing for the sector strategies and action plans for the sectors Jewelry, Watchmaking and Diamond Cutting.

WED component successfully completed trainings for Private Employment Services Providers and Career Centers as well as launched High Tech trainings in Goris with "Instigate" training center foundation and in Gyumri with GITC.

VALUE CHAIN COMPETITIVENESS

During the reporting quarter, the VC Team enhanced its outreach to the regions, focusing mainly on Syunik and Tavush marzes. Numerous company visits were conducted, broadening and expanding sector related knowledge. Many exchanges took place with stakeholders from all supported sectors, including government authorities and agencies, and key donors and donor funded projects.

A. High Tech

A1. HT Products Promotion in International Markets

EDMC supported Gyumri Economic Development Foundation (GEDF) to visit the 14th International One-on-One Forum of Automotive Suppliers on September 17-18, 2012, in Langenargen, Germany. This invitation is a follow-up, resulting from their active communication with new partners and networks they developed during the Hannover Messe. Namely, EDMC had previously provided support (TW-VC-028: Armenian High Tech products promotion in international markets, Hannover Messe 2012) for the participation of High Tech companies at the Hannover Messe 2012, and GEDF was one of the participants.

GEDF profited from this pool of specialized market intelligence, contacts and networking opportunities available at the forum and had the unique opportunity to: (a) offer the services that the Armenian engineering team can deliver to automobile manufacturers; (b) share information about the Armenian engineering sector; (c) share information about Gyumri Technopark and engineering companies that are established at the Gyumri Technopark; and (d) find possible business partners. The result of this activity is expected to be the establishment of new business linkages and possible export deals for the Armenian side. EDMC will follow up with GEDF within the period of 3-6 months to review practical developments resulting from the visit.

A4. Developing Cross Sector Synergies with HT

EDMC worked on preparing a grant package - Request for Applications for the USAID/EDMC "Mobile Applications Development" Grant Competition, inviting all eligible organizations to present their applications. This effort will promote the development of innovative mobile applications, thus contributing to the improvement of existing business management and marketing techniques and enhancement of cross-sectorial synergies. The RFA will be launched on October 22.

A6. Specialized Training in Mobile Applications

In cooperation with the AUA College of Engineering and its Extension Program, EDMC has initiated trainings in mobile and web applications for the IT sector to satisfy the required skills demand by the IT companies. Three pilot trainings in Web design (Html5, Java script, CSS3, Responsive Design; no prerequisites); Mobile Programming: Android (prerequisite: Java) and Mobile Programming: iPhone (prerequisite: at least one of the

following programming languages: Java, C, or C++) were developed. AUA has already completed the Web Design (June-July) and Android (July-August) programming trainings. Initially around 20 participants from HT companies (Instigate, Unisoft Development, Unicomp, Universal Communications and Essential Solutions) and universities were trained. AUA is planning to conduct the iPhone programming training starting on October 11. EDMC is co-funding the trainings with one third, while AUA and individual participants cover also a third each. EDMC coached and supported AUA in their recruitment efforts to attract participants from EDMC sector companies.

A8. Specialized HT sales and marketing training

Through its subcontractor Grant Thornton CJSC, EDMC organized a HT specialized training on marketing, distribution channels, sales and sales agents in Yerevan on September 10-14, and Gyumri on September 24-28. The training incorporates training of trainers and passing on the curriculum to local trainers for future replication. The training was tailored based on the conclusions from previous assessments and company interviews. The tailored course will stress the sales and marketing needs of the companies representing different VCs within the HT sector. The course consisted of two parts: (a) an introduction, emphasizing the specifics of the HT sector; and (b) addressing actual needs of the companies in particular VCs. Partners for this activity were: MIC, GITC, UITE, 3DMU, EIF, and GEDF. EDMC and Grant Thornton CJSC together with the partners managed the selection of 15 participants per training.

A10. How to do financial analysis of HT companies

A training course was designed and organized for the three EDMC PFIs to enable them to further provide financing to HT companies. This was a direct response to the findings from the EDMC PFI assessments conducted in May which showed that lending to the HT sector from the PFIs was specifically limited due to poor understanding of the sector. The course was focused on the life cycle of the HT products, required financing terms and financial analysis of HT companies. The specifics of the products of various VCs in HT sector were also addressed. EDMC worked with subcontractor Grant Thornton to assess the needs of the PFI staff and to tailor the curriculum. The selection of participants was conducted by the EDMC ATF Team. The curriculum contains: (a) Overview of financial statements, ratio analysis and sensitivity analysis; (b) Analysis and interpretation of historical financial and operating performance; (c) Understanding of financial forecasting, basis for preparation, strategic business planning; (d) Financial forecasting as a tool of companies' financial management system; (e) Analysis of the life cycle of HT products with emphasis on required grace periods for development of HT products; (f) Case study of a HT company. Around 20 representatives from PFIs, UCOs and HT companies participated in the trainings on August 20-31.

A13. Support Innovation and Development of Innovative Ideas

EDMC joined efforts with EIF and CRDF Global in implementation the Startup Bootcamp in Tsakhkadzor, on July 29-31, 2012. The Bootcamp focused on technology ideas and

products, with an intense and interactive two day program of training and heavy mentoring by US serial entrepreneurs and business development experts. A group of young promising Armenian entrepreneurs were hosted for an intensive entrepreneurship training and competition designed to provide idea and early stage companies with the tools to establish and grow technology-based ventures. The privilege of participating in STEP Startup Bootcamp and being trained by top notch US serial entrepreneurs and recognized business development experts was achieved through a tough competition, whereby only 12 out of 35 applicants were selected by the US-based expert jury. The participants worked individually with the US mentors and their peers to validate their potential and existing products and gain a better grasp of their niche market and appropriate business strategy.

A14. HT Products Promotion in International Markets

EDMC is cooperating with EIF, Viasphere Technopark, UITE, Synopsis Armenia, MoE and other interested parties in organizing the ArmTech Congress at Stanford University, California and effectively presenting the Armenian HT sector to the US business community. EDMC has nominated observers in the Content, Marketing, and PR Committees of the Congress and has participated in all organizational committee meetings. The agenda and organization scenario have been drafted, recently revising the date from November 14-15 to December 10-11. Based on this, EDMC is finalizing negotiations with EIF on the technical and budgetary support by EDMC.

A15. Conduct skills training for IT specialists

This regional HT development project supported the Instigate Training Center Foundation and Instigate CJSC to establish successful operations in Goris city (Syunik marz) and regularly organize trainings that will produce high quality IT specialists and attract new high-tech companies to the southern region of Armenia. Instigate is planning to expand its operations to the Sothern region of Armenia and establish a branch in Goris; however, it will need qualified specialists to establish and develop profitable operations there. Goris State University agreed with the Instigate Trainings Center Foundation and Instigate CJSC (an MOU is signed between parties) to provide necessary logistics for the training and assistance in recruiting the training participants. EDMC is providing the necessary assistance for organizing high quality trainings that will establish the start of a series of IT trainings. The course started on July 15 and will last six months, focusing on System Engineering and Parallel System Design. Initially around 10 students will be trained, and most of them will be hired by Instigate CJSC to work in its Goris branch.

A17. Organize TOT on Mobile applications at Gyumri IT Center

EDMC assisted GITC to prepare iPhone and Android application programming instructors. WEDT identified and brought international expert Hugo Hernandez, who developed the iPhone and Android applications development curriculum and started the TOT for GITC in Gyumri on September 24. The training will last until October 14, with

12 IT specialists participating in TOT. The best tree participants will be hired by GITC to teach the subject at GITC's newly established mobile programming faculty, using this new curriculum.

Armenian ICT Industry Revised Survey

Taking into account the IT and Engineering services sector growth and diversification, as well as the need to incorporate the hardware segment, EDMC assist EIF in revising the ICT Industry Survey methodology and the applied ICT industry growth model. This activity will be implemented in three phases: (I) Preliminary work: Revision of the methodology and growth model and preparatory activities for the actual survey (completed); (II) Interim assistance with the actual survey (ongoing); and (III) End-of-survey work, to provide assistance in the data-base development, data processing and analysis and results reporting (to be undertaken within November-December). The ICT Survey is expected to generate more detailed VC/company specialization specific data, especially an indication of company product portfolios.

Precision Engineering Action Plan

GOA has requested support in developing an Action Plan for the already adopted Precision Engineering Sector Strategy. EDMC has subcontracted this assignment to EV Consulting, who developed the actual Precision Engineering Sector Strategy, as well as the Export-Led Industrial Policy and Jumpstart Strategy adopted by GOA. They have also completed three sector strategies and Pharmaceutical action plan and are currently working on three more strategies.

The consultant is developing the Action Plan based on the short-term sector strategy (2012-2015), detailing actions both for the government and the private sector. Their work also includes support in organizational setup: consultancy and implementation support in setting up a Sector Strategy Council; drafting a public-private partnership memorandum between the private sector and GOA for the implementation of the Precision Engineering sector development strategy, establishing the goals, roles and responsibilities for each party, as well as the commitments for inputs, resources and actions; and benchmarking parameters for the sector. A draft Action Plan was finalized and circulated among the main stakeholders for feedback and comments. It is anticipated that the Action Plan will be approved by the Council in early October 2012, after which the performance tracking system for the Action Plan will be prepared.

B. Pharmaceuticals/Bio-Technology

B2. Pharma Products Promotion in International Markets

EDMC supported the participation of pharmaceutical producers in the 8th International Exhibition PharmMedExpo, in Tashkent, Uzbekistan, on September 18-20. Six companies were supported: Arpimed, Medical Horizon, Biochim, EscoFarm, Armen Farm and Bizon 1. The support included renting a common booth space and some of the logistics. In addition, a local marketing expert was engaged to help the companies to prepare for

the exhibition and to make sure that the companies met identified companies during the exhibition. Especially noteworthy are the meetings with 7 of the 10 largest Uzbek distributors, from which it was concluded:

1. The Uzbekistan pharmaceutical market can be considered strategic for Armenian producers – the demand is not even partially met;
2. Armenian manufacturers need significant marketing and advertising efforts;
3. deferred payments are expected – up to 8-9 months;
4. big discounts may be necessary, because of currency conversion (big difference between official and market rates) and because some if not all generic products from Armenia are already manufactured in Uzbekistan itself;
5. registration of the offered drugs in Uzbekistan is required;

EDMC will be following up with the participating companies to review any practical developments resulting from the visit during the next 3-6 months.

B4. GMP Compliance

B4.1. Specialized training for Drug Agency inspectors:

GMP is a system for ensuring that products are consistently produced and controlled according to quality standards. It is designed to minimize the risks involved in any pharmaceutical production that cannot be eliminated through testing the final product. As part of the GMP compliance process, a prerequisite for the Armenian inspection body to become a PIC/S member, and thus internationally recognized as a certifying body, is participation by local inspectors in international capacity building opportunities. The need for further capacity building of local inspectors in various areas of Good Manufacturing Practice (GMP) was also confirmed and reinforced by the recommendations of the international GMP inspectors that conducted the joint inspection in August, 2012 (B4.3). EDMC supported the participation of two Drug Agency inspectors (Lilit Soghatyan and Milena Khachatryan) at the Manufacturing Audit of Medicines on Batch Records seminar that was held in Saint Petersburg, Russia, on September 19-21. The seminar was suggested by the SCDMTE and is based on the knowledge needs of the inspectors. As a result of this activity the Drug Agency GMP inspectors will be able to inspect pharmaceutical companies' products on batch records, as well as disseminate the information to their colleagues.

B4.2. CTD Guidance translation

As part of the overall GMP compliance process, the government of Armenia issued a decree by which registration dossiers of medicinal products must be submitted in EU Common Technical Document (CTD) format starting on 01.01.2013. Thus, in order to sell domestically or reach exporting markets, local pharmaceutical manufacturers not only have to bring their production into compliance with GMP requirements, but they also have to submit registration dossiers in CTD format. Due to the absence of CTD guidance in the Armenian language, most of the local pharmaceutical companies face difficulties

in understanding and applying the required format for preparing a medicine dossier for further registration in the local and export markets.

EDMC has completed the translation of the EU CTD guidance into the Armenian language (Notice to Applicants, Medicinal Products for Human Use, 303 page document in PDF format, http://ec.europa.eu/health/documents/eudralex/vol-2/index_en.htm). Based on the translation, a workshop training of five half-day sessions is taking place at the Drug Agency on October 1-5, for the responsible people in the authorities and the pharmaceutical manufacturing companies to understand and prepare the medical dossiers in CTD format. Another function of the workshop is to harmonize issues related to appropriate Armenian terminology. After completion of the editing/proofreading of the translation, the CTD guidance will be printed and made available online in the course of November.

B4.3. Joint GMP compliance pre-audit

As part of the overall GMP compliance process, and to meet this critical requirement, EDMC organized a pre-audit on GMP compliance, together with the Drug Agency. The goal was two-fold: to inform the pharmaceutical producers about gaps that need to be remedied to become GMP compliant, as well as to provide a practical demonstration of the inspection process for inspectors of the Drug Agency. Four local DA inspectors participated in these high level inspections, receiving practical training. A total of five companies - Liqvor, Pharmatech, Arpimed, EscoFarm and Medical Horizon - were inspected for GMP compliance in the period of August 6-17, and received inspection reports highlighting their critical, major and other deficiencies for GMP compliance. The remaining seven manufacturing companies from this value chain were not ready for the inspections and declined to participate. Of the inspected companies, three are closer to compliance, but they all need significant own efforts and support before they reach GMP compliance. Based on the conclusions from the inspection reports, additional assistance will be programmed, especially in regard to preparing and implementing Corrective and Preventive Actions (CAPAs) plans.

B4.4. Specialized GxP training

In order to build the capacity of company employees in the pharmaceutical / biotechnology value chain on various aspects of GMP and marketing areas and facilitate compliance with GMP requirements, EDMC initiated a series of specialized trainings through MPIU and the GXP Center of Excellence, using local expert trainers. These trainings also aim to build the institutional capacity of the GXP Center of Excellence in the provision of training courses for sector representatives (the Center was used in conducting the GSP training, and will be used for the GPP training as well). The trainings will be conducted once per month, over a period of several months, and will cover the following topics:

- 1. Pharmaceutical Good Manufacturing Practice– 6 days**
- 2. Good Distribution Practice course – 2 days**

3. Good Laboratory Practice– 5 days
4. Validation course – 6 days
5. SOP & BD course – 2 days
6. Increasing Effectiveness of Medical Representative – 5 days
7. Pharmaceutical Marketing course – 5 days

The trainings were scheduled to start in September, but because of issues related to securing international experts on B5 and B6, the series actually started with B6: Good Storage Practice (GSP) on September 8-14. Local trainers are more flexible in regard to timing, and therefore organization of training sessions depends more on timing constraints of the trainees. Therefore, the first courses, covering Increasing Effectiveness of Medical Representative, is being provided to 15 participants on October 1-5, at the GxP Center of Excellence.

B6. Training in Good Storage Practice (GSP)

The GSP training was conducted through the GXP Center of Excellence. The international trainer, Natalya Kravets from the Ukrainian Standards Technologies Development company, conducted the training on September 7-14. The five-day GSP training was followed by a three-day TOT course to build local capacity of trainers and assure future availability of this course through the GxP Center of Excellence. The GSP training was completed on September 12 with a total of 13 participants, and the TOT with 7 participants was concluded on September 14.

C. Food Processing

C1. Introduction of Organic Standards

The Introduction of Organic Standards activity aims to identify 10 herbal producers, assess their readiness for Organic certification, provide them with basic training, and advise them on corrective actions that would lead them towards organic standards conformity. This Phase I of the two-phase activity, would create prerequisites for upgrading productivity and enhancing market access opportunities, supporting their transition to organic certification. Based on the results of Phase I, a sub-set of the 10 selected companies will be supported to attain organic certification. The task was subcontracted to EcoGlobe LLC (www.ecoglobe.am), the only organic certification body in Armenia, which holds international accreditations recognized by EU and USA. EDMC and EcoGlobe organized an introductory session on September 18 with more than 30 participants from 23 companies. Based on their expression of interest, 10 companies were selected. The itineraries and timetable for company visits have been developed in coordination with the companies and in accordance with their availability. The visits will cover the companies and their suppliers. Phase I is scheduled to be completed by February, 2013.

C2. Food safety (HACCP) prerequisites pre-audit

Implementation of the Food Safety (HACCP) Prerequisites Pre-Audit activity started in August. The objective of this task is a professional HACCP assessment/pre-audit of 15 fruit/vegetable and herbal processing companies, to identify gaps in regard to HACCP compliance prerequisites. The contracted local expert will give recommendations on possible corrections of the audited inconsistencies, along with an estimate of the required resources for meeting HACCP compliance; these company specific reports will assist the companies in planning activities and investments to become HACCP compliant. In addition, the expert will also provide a full report to EDMC with recommendations on possible future EDMC interventions. The most critical selection criteria were the company's initial understanding and willingness to be pre-audited on HACCP, and their level of export potential. The 15 selected companies include 12 canneries and 3 dried fruit producers from the EDMC company database. The expert has already conducted initial pre-auditing visits to 6 out of 15 selected companies: dried fruit producers Tamar Tatik, Astghounk and Nor Aygee, and canneries MAP, Euroterm and Levon LLC.

C7. PACA-LED exercise in Bagratashen village, Tavush marz

EDMC subcontracted the Gegharkunik Chamber of Commerce and Industry (GCCCI) to implement the Local Economic Development Participatory Appraisal of Competitive Advantages (LED-PACA) Exercise in Bagratashen village of Tavush marz. PACA is a fast-growing and innovative tool for local and regional economic development assessment. It is a method to conduct a quick, action-oriented appraisal of a local economy, looking not only at economic development potential but also at the motivation and capacity of local stakeholders. A PACA Exercise involves a team of four to eight people from the respective location, who conduct a rapid appraisal of the local economy, together with external LED consultants. The activity covers Bagratashen, neighboring villages and Ayrum. GCCCI has submitted an interim report that was reviewed and commented. A presentation of the PACA findings was held in Bagratashen on October 3, which provided the final community feedback to finalize the report. An additional presentation is planned for after submission of the final report.

D. Hospitality

D.1. Developing Regional Tourism in Syunik Region

D.1.1. Assessment and Development of Products

In cooperation with OSCE, which is providing local logistics and cost sharing support, EDMC started the assessment and development of tourism product in Syunik Marz. International expert Nadia Pasqual completed the Syunik inventory assignment and submitted an interim report, along with the developed promotional materials. The new promotional materials will be prepared for printing and printed/published in October. The final phase of this activity is the organization of a familiarization trip for press and local tour operators from Yerevan to Syunik Marz, currently scheduled for October 24-26. The essence of the project is to focus on product development and marketing

assistance, which is required to help local tour operators to better understand the competitive advantages of the Syunik Region, and to develop and sell (new) tourist products through individual tour packages.

D.1.2. Hospitality Services Training

As part of the general approach to develop regional hospitality services, and to complement the development of new tourism products, a series of trainings started in Syunik Marz on July 27. The following trainings were held during the reporting period:

1. July 27-28 - Hospitality Skills for B&B operators in Shikahogh village (12 people);
2. August 1-9 - Professional Skills for Guides in Khapan (13 people);
3. Sept 13 - 14 - Hospitality Skills for B&B operators in Tsav village (13 people)
4. Sept 15 - 16 - Hospitality Skills for B&B operators in Nerqin Hand village (11 people)

Trainings on Restaurant Service Skills and Hotel Middle-Management Skills will be held in October and November. The trainings are held by local trainers who have internationally recognized certification by the American Hotel Association (AHA) and the World Federation of Tourist Guide Associations (WFTGA).

D.8 Annual Food and Cuisine Festival in Akhtala, Lori Marz

In cooperation with the Areni Fest Foundation, EDMC co-funded and assisted in organizing the annual Preservation of Armenian National Cuisine festival in Akhtala, Lori Marz, on September 8, 2012. This is one of the forms of assistance to the Armenian tourism industry to better package and promotes festivals as an instrumental part of Meetings Incentive Conferences and Exhibitions (MICE) tourism. The event was successfully held with more than 2000 local visitors, plus some 60 visitors from Turkey and 700 from Georgia.

D.12. United Nations World Tourism Organization Annual Conference in Yerevan

EDMC is working with the UN Armenia representation and GIZ to assist the Ministry of Economy to host the UNWTO annual conference in Yerevan on October 18-19. The topic of the conference is "Universal Values and Cultural Diversity in the 21st century: How can Tourism make a Difference?" In close consultation with MoE staff, including Deputy Minister of Economy A. Petrosyan and Head of Tourism Department M. Apresyan, on the organization and budget for the event, EDMC developed the activities and a realistic budget. In addition, EDMC will support the event with guest speaker expert Dr. Khan, who will address the conference on "Solidarity and Tourism's Contribution to Poverty Alleviation". The expert will also work with WED on developing a hospitality services curriculum for higher education institutions.

D.13 Online Portal

Based on thorough consultations with subcontractor Grant Thornton and NCFA, EDMC developed the online national tourism portal activity. The final draft of the task was

submitted to NCFA for their final feedback in mid-September. STTA support will be required in developing a modern design of the portal and in editing texts to the standards of international marketing and promotional language. The task includes search engine optimization and mobile capacity (optimized portal version and special applications for mobile devices). The task worksheet will be finalized upon feedback from NCFA.

D.14. International Visitor Survey

The quarter was devoted to the process of coordination with the main partners: NCFA, MoE, NSS and GIZ. The survey methodology was reviewed by a GIZ international expert and the working group applied the recommendations to revise the methodology and questionnaires for arrivals and departures. Based on the discussions, a task worksheet was developed, with a realistic budget for the planned survey activities. The document was submitted to MOE and NCFA for concurrence, and the project received feedback from NCFA in the last week of this quarter. The task worksheet will be submitted for approval in the first week of October. Survey activities will start immediately upon approval. A Letter of Intent will be signed, describing the responsibilities of each one of the partners. The survey will cover a period of 12 months, expected to be completed in September 2013. The final report will be prepared within two months after the last interview date.

E. Cross cutting and other activities

E3. Jewelry, Diamond-Cutting and Watch-Making Sector Development Strategies

This activity started on June 27, 2012, with a kick-off meeting with industry representatives at the Ministry of Economy. The goal of the meeting was to present to the sector representatives the idea of the export-led industrial strategy based on public-private partnership and inform about the start of the strategy and action plan development process by EV Consulting. Work on the three strategies and associated action plans continued during this quarter. The draft reports of the development strategies for the Jewelry and Diamond-cutting industries were submitted to MoE for review in September and will be presented to key industry stakeholders during the first week of October; the development strategy for the Watchmaking industry will be submitted to MoE in the first week of October. After getting final consensus from the industry stakeholders on the proposed Strategies, eV Consulting will develop the detailed action plans, and set key targets and performance monitoring indicators.

E4. Caucasus and Central Asia Conference in Vienna and Armenia-Italy Business Forum in Rome

EDMC supported an Armenian Development Agency (ADA) delegation in meeting with officials and businessmen in Rome and in Vienna to introduce business and investment opportunities in the Armenian industry during the conferences and B2B meetings. The Minister of Economy participated in the Conference "Caucasus and Central Asia -

Promoting sustainable growth in times of global economic challenges”, in Vienna on September 25-26, 2012. A number of private companies also participated in B2B meetings with Austrian businessmen, with the support from the ADA delegation. On September 27-29, 2012 the Armenia-Italy Business Forum was held in Rome under the auspices of Ministers of Economy of Armenia and Italy. For the participation in the event the representatives from Armenian Development Agency, as well as about 20 businessmen operating in the sectors of construction materials, stone processing, food processing, tourism, pharmaceuticals, textile, shoes, household appliances, and furniture manufacturing joined the Minister of Economy of the Republic of Armenia in his visit to Rome. During the Forum, ADA gave a presentation to Italian officials and the business community about the Armenian investment and business environment, free economic zones, export potential and possibilities for joint projects, inaugurating the use of the EDMC supported and recently developed and published Armenia Investment Guide.

WORKFORCE AND ENTREPRENEURSHIP DEVELOPMENT

During the quarter, WEDT focused on the implementation of capacity building events and skills training programs for Food Processing, High Tech and Hospitality sectors.

The component brought an STTA and organized two two-day capacity building trainings on service and performance improvement for private employment agencies, job portals and university career centers. The trainings aimed at improving the operations and services of these agencies so that they are able to recruit and reference the best-qualified job candidates as demanded by Armenia’s enterprises.

EDMC assisted the “Instigate” training center foundation to establish a branch in Goris region and start High Tech trainings for 10 students at Goris State University. Upon completion of the training the trainees will be hired by “Instigate” CJSC.

WEDT brought an Android and iPhone expert Hugo Hernandez and started three weeks mobile technology trainings for GITC and Gyumri IT specialists.

EDMC in partnership with AUA completed Android programming training for employees from IT companies and students.

The team identified potential value chain companies for implementing 3-5 Quick Start Trainings in several regions of Armenia including Tavush, Syunik and Shirak regions.

2.1.1 Building ties between universities, VET, high schools, career centers and potential employers

The team met with the Prorector of Yerevan State University Ruben Markosyan and discussed possible cooperation between EDMC and YSU on university and business community bridges enhancement, career guidance module development, entrepreneurship trainings for students with CEED participation and other possibilities.

The team will meet with the prorektor again at the beginning of Oct. to discuss the details and timelines of possible cooperation.

To promote students' employability and internships the team has decided to solicit grants from different organizations (priority will be given to private employment agencies, universities and other organizations that are specialized in the field and may develop and establish sustainable linkages between businesses and educational institutions). The RFA has already been announced and the team and the grants manager have scheduled Q&A sessions in three regions of Armenia – in Syunik (Goris), Shirak (Gyumri) and in Yerevan.

Eurasia International University in collaboration with Lithuanian Mykolas Romeris University has initiated a master degree program in Electronic Business Administration. The team met with the university representatives to discuss the prospects of cooperation. The University is having a difficulty in finding qualified lecturers for their newly established program and they may need TOTs for E-commerce planning and IT project management subjects. Additionally, they are currently organizing open entrepreneurship trainings and were very interested in EDMC assistance to improve and promote their entrepreneurship program.

2.1.2 Develop training courses with VET institutions in VCs

WEDT supported the Instigate Training Center Foundation to start trainings in system engineering and parallel system design at Goris State University. Instigate recruited 10 students from the university who should pass 6 months trainings and then 8 of them will be employed by Instigate. Instigate reported that they have already opened their branch in Goris and has already employed 3 of the trainees. The team is planning to have a monitoring visit to Goris at the beginning of October.

Gyumri Information Technologies Center (GITC) has established a mobile programming faculty; however, they have to recruit instructors from Yerevan which is costly for the institution. EDMC decided to assist GITC to prepare iPhone and Android application programming instructors. WEDT identified and brought a STTA Hugo Hernandez who has developed a iPhone and Android applications development curriculum and has already started conducting the TOT for GITC in Gyumri. Twelve IT specialists are participating in TOT 3 of who will be hired by GITC to teach. The curriculum will be used for teaching the subject at GITC's newly established mobile programming faculty.

To promote the development of high skilled and competitive workforce for the High-tech industry EDMC decided to organize three trainings (iPhone, Android programming and Web Design) that were highly demanded by the sector businesses. AUA has already completed Web Design and Android programming trainings where participated employees from IT companies like Instigate LLC, Unisoft Development, Unicomp CJSC, Universal Communications and Essential Solutions, etc. AUA is planning to conduct the iPhone programming training in October.

WEDT and VC team had several meetings with the representatives of the State Agrarian University (specifically the dean of food and vegetables processing department), the director of Career Center of State Agriculture University/ICARE foundation and the director of Agribusiness Teaching Center (ACT)/ ICARE foundation. The possibility of skills development trainings and cooperation in general was discussed. It was agreed that a pilot skills development training for technologists of fruit and vegetable processing companies will be organized and EDMC/WEDT in cooperation with ICARE will work with relevant departments of State Agrarian University to assist them in developing and updating the curriculums for food and vegetables processing department.

The team had several meetings with the director of Gyumri Economic Development Fund (GEDF) and discussed the possible cooperation for the next fiscal year. EDMC will assist GEDF with building capacity of its new Hardware Design faculty and organizing entrepreneurship trainings.

Yerevan State Informatics College has launched the first in Armenia Mechatronics specialization. The director of the college approached the project for possible assistance to strengthen the capacity of the faculty through EDMC grant. The project's High Tech and WFD experts and the Grants Manager met with the director of Yerevan State Informatics and briefed on USAID rules and Project priorities. It was agreed that the College will submit the expression of interest during the next two weeks. Yerevan State Informatics College submitted the expression of interest for upgrading the capacity of its mechatronics faculty. The grant manager, the WFD and High Tech experts discussed the proposal. EDMC will engage the potential partners to create a sustainable cooperation model for Mechatronics Faculty capacity building and developing linkages with the training needs of VC businesses

The task worksheet for STTA Dr. Khan has already been approved by USAID. The project will be implemented in October and aims to develop a modern curriculum for European regional Academy, Russian Armenian Slavonic University and Armenian Greek Tourism College to provide modern education and trainings contributing to the increased competitiveness of the hospitality sector. The STTA will work with educational institutions to review the existing hospitality training programs and provide recommendations for improvements of linkages between education institutions and hospitality industry businesses. Based on the review and workforce skills demand in the hospitality sector the STTA will identify the gap and develop a new training program/curriculum. The new hospitality curriculum will be incorporated into educational programs of the mentioned education institutions and be successfully used for providing modern classes for students increasing their employability.

2.1.6 Pilot one Quick Start program

The Quick Start project was designed to have two stages of implementation. In the first phase WEDT invited a Quick Start advisor who trained VET institutions, colleges and universities from the EDMC target sectors on Quick Start methodology. The training

included introduction to the Quick Start methodology, practice conducting job analysis and preparing a training program for specific job skills.

In the second phase of the project EDMC is planning to develop and organize several Quick Start trainings for the selected value chains. For this purpose, WEDT has drafted Request for Applications to solicit grant proposals from VETs, Universities, Training Centers, Business Development Services and other organizations that have participated in the first stage of the Quick Start project. Grant applications will propose skills training (based on Quick Start methodology) for a value chain company. The RFA will be announced in November.

However, the WEDT based on the value chain team's assessments has identified 3-5 Quick Start training projects with selected businesses which will be launched in October. Quick Start advisor Kurt Becker will be again invited to help the selected institutions/businesses to develop the Quick Start trainings' curriculums and advice on the trainings' implementation part.

The identified Quick Start training projects include two canneries from Tavush Marz. One is in Aygedzor village ("Vital" LLC) and the other is in Jujevan village ("Arthur & Edita" LLC). They plan to expand their production and need skill trainings for their workforce. Another identified QS training is planned to implement with the Scientific and Educational Center for Development. A possible training of 40 waiter/esses and maids from Yerevan and regional hospitality places has been planned. WEDT is working with partners in other regions to organize QS trainings too.

2.1.9 Improve job-matching web sites and private employment services providers

It is widely agreed that workforce skills in Armenia are misaligned with the skills needed by Armenian enterprises – thus hindering the competitiveness of Armenian businesses. One remedy to this condition is to ensure that Armenian businesses hire best-qualified job entrants – workers who can learn faster, produce more, and stay on the job longer. Indeed, a system of directing highly qualified workers to employers has implications for national workforce performance and economic growth. In this context, an international employment and workforce development consultant (Mr. Philip A. Hurst) was engaged on a short-term assignment with the EDMC program to strengthen services and performance of labor exchange and career information providers.

WEDT and STTA Philip Hurst held informational interviews with several private employment agencies (PEA) and university career centers discussing the activities, performance, plans and training gaps of the organization. Based on the interviews WEDT and STTA Philip Hurst developed a training program and conducted capacity building trainings for two separate target groups PEAs and university career centers.

WEDT and STTA Philip Hurst successfully conducted the capacity building trainings for 8 participants from 7 leading Private Employment Services and job portals including Tanger, Accept and Careercenter.am. Participants acquired new skills in communication,

presentation and sales for more effective interaction with employers and job seekers. The STTA also provided knowledge on improving web-based job matching services and provided best practices review and standards for employers and job seekers services. The STTA prepared a final report with recommendations on how improve the capacities and services of PEAs, and career centers.

2.1.10 Building a consensus to enhance WF Development through interested parties' task force

WEDT participated in Validation Workshop on Youth Employment organized by UNIDO. UNIDO national experts presented the current situation of the youth employment from the perspectives of gender, rural and regional development and entrepreneurship promotion. The team participated in working group discussions and contributed to recommendations which will be used for upcoming UNIDO project.

The HR Association is planning to conduct the 1st HRM conference in Armenia for HR professional in October 25-26. The association has asked EDMC to provide targeted assistance with the conducting of the event. The conference will help to promote human resources management as one of the key elements for prompting organization development, enhancing market competitiveness and improving Armenian companies' operations and human capital. WEDT has developed a Task worksheet and submitted to management for approval. According to it EDMC will provide technical assistance in organizing the conference and will help with the publication of a magazine with all the materials concerning the Conference: speeches, statistics, articles, interviews as well as workshop outcomes.

Center for Entrepreneurship and Executive Development (CEED)

2.2.8 Develop a CEED Armenia website and leverage it in informing potential Top Class participants and other stakeholders about CEED Armenia activities

Information about CEED Armenia has been made available at www.edmc.am/ceed. The website provides information on CEED's approach to business acceleration, its history and activities in Armenia. Interested entrepreneurs can learn about the first Top Class program completed in the summer of 2012 and find out how to apply for the second generation of Top Class that is scheduled to start in the fall 2012.

CEED Armenia has also reserved the www.ceed-armenia.org domain, which currently takes visitors to the CEED Global website at www.ceed-global.org. CEED Global is currently working on revamping its strategy for online presence across all countries, which will enable CEED Armenia to more effectively present its programs and services to the online community.

2.2.13 Conduct evaluation meetings with Top Class participants upon completion of the program

Evaluation meetings with Top Class participants have been conducted. A two-pronged approach was used to maximize the value of the feedback provided by the participants and to incorporate this information in the subsequent generations of the program. First, every Top Class participant was asked to fill out an evaluation form after each Top Class session in order to assess the relevance of the information presented and the effectiveness of each speaker. This information was essential to fine-tuning the curriculum for the second year and ensuring that only high rated speakers receive invitations to participate in the subsequent programs. In addition, individual meetings with Top Class participants were scheduled upon completion of the Top Class to assess the overall program strategy and structure and discuss ideas regarding potential improvements to the program. Based on the feedback obtained, the program will be scheduled over a longer period of time starting in the fall of 2012 and ending in the summer 2013. This approach will help the participants better manage their schedules and minimize the possibility of missing Top Class sessions due to business trips and other urgent matters. It was also decided that a full Top Class session will be dedicated to each topic so the speaker has more time to present the material and share his or her experiences.

2.2.16 Recruit Top Class mentors

Mentors for the Top Class program have been recruited. Best efforts have been made to ensure that the pool of mentors includes a wide range of skills and experiences in order to provide most useful advice to the Top Class participants with different goals and interests. The Top Class mentors include not only local entrepreneurs and experts but also international business leaders in order to ensure a variety of perspectives and broader business networks. Some of the mentors represent the investor community, thereby increasing the possibility for Top Class participants to obtain access to finance.

Some of the mentors have been recruited through CEED representatives' participation in and contribution to the first StartUp Cup Armenia Competition organized by the Armenian Technology Startup Association and through participation in other events that involve the value chains selected by EDMC. CEED Armenia Director served as a judge and a coach to the StartUp Cup teams providing guidance and advice to help the teams refine their business ideas and develop strategies to successfully bring their products and services to market.

2.2.17 Recruit Top Class participants

The recruitment of Top Class participants is underway. The recruitment efforts are focused on the value chains selected by the EDMC and are coordinated with the Value Chain Competitiveness experts. In order to facilitate the recruitment efforts, Top Class program is promoted via a variety of online and offline channels. The Top Class announcement has been made available through various social media, relevant mailing lists, partner organization websites, and a wide range of other electronic channels. A

Top Class brochure has been developed and relevant information included in the EDMC newsletter. The program was also announced at various events such as the “Women Entrepreneurs’ Network of the Republic of Armenia” conference organized by Armenian Young Women’s Organization’s on September 22 and attended by the US Ambassador. Partner organizations such as the Enterprise Europe Network in Armenia, Union of Information Technology Enterprises, and Union of Incoming Tour Operators are also sharing information about the Top Class program with their members.

2.2.18 Recruit speakers for Top Class sessions

Top Class speakers have been recruited. In addition to inviting the best rated speakers from the first generation of the Top Class program, CEED also recruited new speakers who will introduce such topics as business innovation, social entrepreneurship, and strategic planning. The speakers are entrepreneurs and experts from Armenia, US, Europe and other parts of the world. They bring a variety of perspectives and rich expertise in a wide range of areas. Many of the speakers have done business both in Armenia and abroad and are able to present and discuss with the participants the challenges and opportunities of different markets.

2.2.19 Recruit speakers for Network Learning Events

Speakers for the network learning events have been recruited. In addition, different formats for the network learning events will be implemented in order to provide a variety of experiences to the participants. One of the network learning events will be dedicated to presenting and discussing the participants’ companies and new business ideas. Another event will be organized in collaboration with the Access to Finance Component and will coincide with the private equity workshop that will attract a range of investors. The third network learning event will use the “SME café” format that will create an opportunity for the participants to get to know each other through discussing a variety of business topics in groups and presenting the results of their work to the larger audience.

2.2.20 Assess the need for an advanced entrepreneurship program and potentially introduce Top Class Plus or another customized offering

The assessment of the first generation of the Top Class program indicated that the alumni are interested in remaining part of the CEED network, meeting participants of the new generation, and participating in networking events to expand their business contacts and interact with local and international business leaders. Therefore, opportunities to meet this need will be created and some of the Top Class events of the second generation will be open to the first generation alumni in order to facilitate networking and peer learning.

Over the course of the year, CEED has been engaged in discussions with a variety of organizations working in the sphere of entrepreneurship in order to effectively develop and target its subsequent programs. It has been concluded that while advanced entrepreneurship programs are likely to be relevant at a later stage of the project, one of the most pressing current needs is the development of offerings for women entrepreneurs. CEED is discussing potential partnerships with a number of local and international organizations active in this field in order to maximize the impact of its program. In addition to joint initiatives, CEED is also assessing the possibility of organizing a training for women entrepreneurs based on CEFE methodology (Competency-based Economies through the Formation of Enterprise).

2.2.21 Develop Top Class Plus curriculum and timeline of sessions

Given CEED's intention to focus its customized offerings on increasing development opportunities for women entrepreneurs, a program that best meets the needs of this group is being developed. It will include elements of the Top Class program successfully tested in Armenia and a number of European countries, as well as elements of CEFE methodology introduced by GIZ, which has also been successfully used in a wide range of programs in Armenia and received positive feedback from the participants. CEED Program Manager is a certified CEFE trainer and will supervise and contribute to the development and implementation of such a program.

C.2.22 Recruit Top Class Plus mentors

One of the Top Class elements that will be used in the women entrepreneurship program is involvement of mentors who can provide guidance and advice to participants on a variety of subjects. Both the pool of the Top Class female mentors will be leveraged and new mentors will be recruited on an ongoing basis. CEED is looking into partnership opportunities with such organizations as the Armenian Young Women's Association, which has an extensive network of female mentors from different regions with expertise in various fields to provide the best mentorship opportunities to the participants of the women entrepreneurship program.

Partnerships with local and international organizations working in the space of entrepreneurship will be built on the experience of successful collaboration initiated in the first year of the project. CEED representatives have made contributions to the events organized by the Armenian Young Women's Association in Yerevan and other cities of Armenia. CEED has also successfully collaborated with SME DNC and provided support to strengthen its capacity. An example was a multi-phase training on startup promotion conducted by a CEED representative in August 2012 for the SME DNC head office and its regional representatives.

C.2.23 Recruit Top Class Plus participants

The recruitment of participants to the women's entrepreneurship program will commence once the program design has been finalized. The program will be promoted

via a variety of online and offline channels in order to reach a wide audience and attract participants who can best benefit from such a program.

C.2.24 Recruit speakers for Top Class Plus sessions

Most of the training sessions will be led by professional trainers as this approach is believed to be most effective in meeting the needs and interests of the target group. CEFE certified trainers will be involved in order to strengthen the participants' understanding of the basics of business administration. CEED Program Manager also has a CEFE certification. She will both contribute to the program personally and supervise the speakers' involvement. Interactions with mentors and participation in the networking events will help participants learn from the real life examples and establish useful business contacts. Learning and networking opportunities across CEED programs will also be created.

BUSINESS ENVIRONMENT IMPROVEMENT

B1. Review of the draft law on pharmaceuticals

BEIT continued to work in the pharmaceutical area and contracted a local expert to define the domestic legal framework, institutional set up and legal requirements governing the pharmaceutical/biotechnology sector, specifically: all applicable laws, government and ministry decrees and orders, rules, technical standards etc., including a short description of their scope and subject. The main objective of this activity was to develop recommendations for improving the legal framework regulating the pharmaceutical/biotechnology sector and the institutional set-up of the accreditation and certification bodies in Armenia and aligning these with EU rules and international best practice. The report delivered by the local expert will also provide an essential resource to the international expert engaged by the EDMC project to develop recommendations on harmonization of local legislation in the pharmaceuticals/biotechnology sector with the EU *acquis communautaire*. Based on the local expert's report, the BEIT will also develop its proposals to amend local legislation regulating the VC.

Following agreement with the RA Ministry of Health (MOH) and Drug Safety Agency (DSA) BEIT proceeded with hiring of an international STTA to provide advice on aligning the legal and institutional framework governing the pharmaceutical VC with international best practice. In order to have more targeted assistance the BEIT requested the MOH and DSA to provide a list of specific legal issues that are of immediate concern to them. That list, together with the inquiries provided by those agencies, was communicated to the international STTA beforehand.

To provide a better insight on the domestic legal framework regulating the sector, a number of legal acts were translated and were sent to the international expert, together with a Discussion Paper on Improving Legal Framework Governing Pharmaceutical

Sector which had been developed by BEIT. The expert will work closely with the MOH, DSA, Medicines Producers and Importers Union (MPIU) and the relevant businesses.

3.1.4. Streamlining VC specific licensing procedures

During recent years Armenia has made substantial progress in improving the business enabling environment. However, the Government recognizes that the competitiveness of domestic enterprises is hampered by unnecessary administrative and regulatory burdens associated with licensing and government authorization procedures. In order to reduce such burdens on businesses the Government is implementing a Regulatory Guillotine Program. The Regulatory Guillotine Program will review (screen) the legality, business friendliness and usefulness of legal and regulatory requirements applicable to businesses. However, the Guillotine Program will not focus on the specific requirements applicable to the value chains supported by the EDMC Project.

With this consideration, the BEIT engaged a local expert to perform a comprehensive review of all licensing and government authorization requirements, procedures and inspections applicable to enterprises operating in the EDMC selected value chains. Based on this report, the BEIT will develop proposals for the elimination of outdated and obsolete licensing and authorization requirements as well as unnecessary inspections.

3.1.5. Improving competition enforcement practices in the selected VCs

At the initial stage of the project the BEIT had numerous meetings with businesses operating in the VCs. During interviews most of the businesses reported that there are serious competition constraints preventing market access for SMEs. As they pointed out, this situation is partially due to the dominant market position of certain companies ("natural monopolies"), as well as due to instances of abuse of a dominant position or collusive agreements to restrict competition by incumbent market players. To have a better understanding of the problems and constraints existing in the selected VCs BEIT engaged an international expert to conduct comprehensive research of the anti-competitive practices and behavior in each of the VCs and to provide recommendations aligned with international best practice which will help the BEIT to design proposals for improving competition enforcement practices in each VC.

3.1.8. Propose recommendations to strengthen IPR enforcement

The lack of a consistent and efficient legal framework for the protection of copyright and related rights directly impacts on innovative and creative product development in the high-tech, pharmaceutical, food processing and hospitality services in tourism value chains (VC). This has been recognized by the Government and adopting modern copyright legislation has been made part of the process of negotiating a Deep and Comprehensive Free Trade Agreement (DCFTA) between Armenia and the European Union (EU). In this context, the Armenian Intellectual Property Agency (AIPA) has committed to support this copyright law reform and has requested EDMC assistance in drafting the law. Per request of the AIPA, supported by the EU, AG and Twinning

Resident Advisor on IPR, BEIT engaged an international expert with extensive experience in drafting Copyright laws in Middle and Eastern Europe. The expert has already started his mission in Armenia and will deliver the draft Copyright law by December 1, 2012.

3.1.9. Providing VC specific assistance on harmonizing SPS and TBT with EU requirements

The CIS Countries are amongst the traditional markets for Armenian products, specifically in the cases of food processing and pharmaceuticals. In recent years, the CIS countries have been aligning their regulatory framework in these areas with the *acquis communautaire* of the EU. Armenia's lack of capacity to issue EU-compliant certificates domestically and the non-availability of EU-compliant accreditation agencies in the country will not only prevent Armenia's exports to EU markets, but will increasingly bar such exports to established traditional markets as well. Thus, it is imperative that Armenia undertakes the necessary reforms to adopt EU compliant SPS standards develop the necessary laboratory capacity and build the capacity of domestic accreditation agencies not only for the growth but also for the sustainability of Armenia's food processing industries.

BEIT, through the work of a local expert, has identified the domestic legal framework, technical standards, practices and institutional set-up governing SPS and TBT applicable to the fruit/vegetable/ herbs food processing VC. This report has provided a useful resource to the international expert engaged by the EDMC project to develop recommendations on SPS/TBT harmonization with EU requirements in the fruit/vegetable/ herbs VC sectors.

Based on the local expert's report and that of the international expert, BEIT will recommend reform actions and propose amendments on aligning the SPS and TBT related domestic legal framework with EU requirements.

3.2.3. Improving certified laboratory testing for products and services in the selected VCs

In recent years, the CIS countries are adopting EU compliant rules governing this sector. In this context, developing the necessary laboratory capacity is imperative not only for the growth but also for the sustainability of Armenia's food processing and pharmaceutical industries.

BEIT engaged a local laboratory expert to identify the laboratory testing needs of enterprises operating in selected VCs and to assess the available laboratory capacity in order to develop recommendations on upgrading the existing capacity, creating new laboratories or forming partnerships with laboratories abroad.

The detailed report developed by the local laboratory expert has provided the real picture on the situation in the existing laboratories serving the food sector. According to the report, there are 94 accredited laboratories in Armenia and only 22 of them provide services related to the fruit, vegetables and herbs VC. The report demonstrates the

desperate need for improving laboratories' capacities. The report also contains sound and actionable recommendations for redressing the situation.

The report has also revealed that vast majority of certified laboratories in fact do not comply with ISO 17025 requirements even though they have been granted such a certificate. With this regard, the BEIT is planning in year 2 to review currently acting certification procedures and to develop proposals for the adoption of more prudent and effective certification procedures.

Research on the constraints preventing growth of e-commerce in Armenia

The development of e-commerce will enable the growth of enterprises operating in the VCs supported by the EDMC Project, most particularly in respect of the hospitality VC sector, by promoting electronic reservations, payments, etc.; in the food processing VC, by promoting electronic ordering of, and payment for, fruit and vegetables for processing needs, delivery of supplies, etc.; for the pharmaceutical VC sector by facilitating electronic ordering and payment for supplies, medicinal compounds, laboratory agents etc. The growth of e-commerce will also have a positive impact on the growth of the domestic High-Tech, as well as facilitate a more user-friendly provision of services by domestic banks.

The Government recognizes the importance of e-commerce and is pursuing corresponding reforms through the adoption of several key legal acts. As part of these ongoing efforts to enable its growth, the Ministry of Economy (MOE) has requested EDMC's special technical assistance and expertise in developing e-commerce legislation.

EDMC initiated an assessment (through a contracted local expert) of various constraints on the growth of e-commerce in Armenia (legal, institutional, technological, customs, and postal service etc. constraints) for the purpose of improving the current legal framework governing e-commerce. This comprehensive report, which will outline the current situation on e-commerce in Armenia and the different constraints preventing its' growth will enable the BEIT to formulate its proposals on creating a supportive legal framework which will facilitate the growth of e-commerce in the country.

Report on dual use goods

This task was undertaken based on a request made by HT sector representatives. A recent brief published by the IFC Doing Business Reform Project praises the success of the Government in streamlining the regulatory framework for export examination. However, IT businesses complained about the ambiguous procedures regulating the export of dual use goods (i.e. goods which can be used for civil and military purposes) and the widely adopted practice of mis-classification of those goods. The report prepared by BEIT provides an overview of the existing practices related to dual use goods and proposes specific amendments to the legislation.

Cooperation with Regulatory Guillotine Program

BEIT pays special attention to ongoing cooperation with the Regulatory Guillotine Program initiated by the Government. The priority sectors approved by the Council formed under the Regulatory Guillotine Program for year 2012 includes the health sector which, in turn, includes pharmaceuticals - one of the four VCs supported by the EDMC project. The Regulatory Guillotine Program Unit requested BEIT assistance with the legal proposals pertaining to this sector. BEIT provided them with a Discussion Paper on Improving the Legal Framework Governing Pharmaceuticals which contains a comprehensive overview of current law and the newly introduced draft law covering pharmaceuticals. The paper also contains a number of recommendations aimed at improving the regulation of the sector in Armenia. According to feedback received from the Guillotine Program, the findings of the BEIT developed paper will be incorporated in the report on the health sector to be developed by the Program.

3.1.13 Provide targeted assistance to the GOA under the Regulatory Guillotine Program

The objective of the task was to update and improve the Investment Guide formerly published by MoE. The Investment Guide is intended for distribution to potential investors, especially during those events held abroad. This task was contracted to Global SPS. BEIT has thoroughly reviewed the content of the Investment Guide and provided its detailed comments on each chapter. BEIT comments were well-received by Global SPS and the finalized Investment Guide was already printed and delivered to the MoE.

Cooperation with IFC on Export Guide for Fresh and Fruit and Vegetables

During the quarter, BEIT continued its cooperation with IFC and agreed the areas for further joint activities. Within the framework of its previous project, IFC had developed an Export Guide for Fresh Fruit and Vegetables in both the Armenian and English languages which was published on the ADA website. However, currently IFC does not have sufficient human resources to update this electronic Export Guide and requested EDMC assistance for doing so, incorporating it into the EDMC website and providing further maintenance.

IFC also proposed to have jointly organized trainings and other knowledge dissemination events for the SMEs based in the regions of Armenia.

GIZ/SCPEC/EDMC joint events

During the quarter EDMC started a series of seminars organized jointly with GIZ and SCPEC. The topic of the first seminar was "Economic Competition in Public Procurement Procedures". This event was the first stage in the series of the seminars to be conducted under the Caucasus initiative of the German Federal Ministry of Economic Cooperation and Development (BMZ) which promotes the political and economic cooperation of the South Caucasus Republics of Azerbaijan, Armenia and Georgia. Under this initiative GIZ organizes a series of seminars presenting such topics as violation of trademarks, unfair advertising and competition related case law.

The first series of seminars are intended for different target groups including officials of the Ministry of Finance, SMEs operating in the EDMC supported VCs. The objective of this event was to disseminate knowledge and best practice experience in combating anti-competitive practices and behavior in public procurement processes. The seminars were delivered by the German judge and BEIT team leader and a member of the BEIT team.

Negotiation Skills Training for the Women's Forum members

The "Women's Forum", a local NGO, approached EDMC with request for training on negotiation skills for the NGO members. This NGO was created in 2002. Since then the main objective of the NGO is to address the challenges faced by women-entrepreneurs in Armenia. At this stage the Forum was implementing the "Businesswomen for Armenia –Turkey economic cooperation" project funded by the Eurasia Partnership Association. Within the framework of this Project it was arranging a business-to-business (B-to-B) meeting in Turkey to set up mutually beneficial cooperation with Turkish businesses. The Forum members requested EDMC assistance to organize training on negotiation skills and contractual issues. Together with VC team, BEIT organized two-days of training for female-owned businesses. BEIT conducted the second day training which provided the participants with basic knowledge on the various types of the contracts, essential terms and conditions of the contract, letters of intent etc. with a special focus on the legal issues which should be taken into consideration while negotiating with foreign partners. In addressing the potential need for cross-border supply contracts, BEIT also introduced participants to specific provisions covering INCOTERMS.

3.1.10 Analyzing legal requirements governing business activity in the selected VC from business start-up to export

BEIT undertook the mapping of the legal requirements that must be met by the VCs, covering the process from business start-up and operation through to the point of production/export. This exercise provides an essential understanding of all the legal requirements in the chain. As an outcome, BEIT will easily identify the outdated and conflicting provisions affecting the process. The findings will be used to formulate recommendations and pass them to the Government supported Guillotine Program for review."

ACCESS TO FINANCE

During the fourth quarter the ATF Component began a wave of SME financing capacity-building interventions for the Partner Financial Institutions (PFIs) - based upon the diagnostic assessments and the target sector financial mapping conducted in the third quarter – which began with the delivery of the “High Tech Sector Analysis Training”. The first six months of PFI financing to enterprises in the sectors was documented and analyzed and has showed strong results – exceeding the Year One Work Plan target. On the direct SME-side, the EDMC Financial Education Program began to take shape. Regarding Foreign Direct Investment (FDI), a pipeline of companies for SEAF equity investments has been developing with two concrete investments in their final stages of preparation. Collaboration with other international donor initiatives continued with the ADB, the PFS, and the signing of portfolio guarantee agreements for Unibank and ABB with USAID DCA.

4.1.4 Design TA work plans with all PFIs based on the financial needs of the sector enterprises

Based upon the findings of the diagnostics/strategy development for the three PFIs, which were designed to assess the gaps in the banks’ lending to the four EDMC sectors, a comprehensive program of direct technical assistance interventions was designed – including for an additional PFI, the newly-established Goodcredit UCO. This brought the total number of financial institution partners to four for EDMC.

Five main pieces of technical assistance were provided/began for the PFIs in the following order:

- 1) High Tech Sector Analysis Training
- 2) Loan Officer and Credit Analysts Training
- 3) Agricultural Loan Product Development
- 4) Cash-flow Based Product Development
- 5) SME Reporting

The *High Tech training* was designed and conducted by EDMC local subcontractor Grant Thornton between August 20 – 31 at the IAB Center in Yerevan. The invited participants included loan officers and analysts from Unibank, Araratbank and ABB, the Chief Accountant of General Finance and Credit (GFC) UCO and the Financial Director of the Instigate Design company. The goal of the training was to help the PFIs to better understand the sector so that they would be more inclined to extend financing to it, as bank financing to the High tech sector has been at a low level. The training was 30 hours over a period of 10 days and was attended by 19 financial specialists. With this training completed, the follow-up from EDMC will be to assist those institutions to strategically target the companies in the sector. EDMC will assist the participants in applying their knowledge from the training to on-the-job practice, resulting in larger lending volume into the sector.

The *Loan Officer and Credit Analysts training* was designed by EDMC STTA Phil Beavers and delivered to four PFIs by Mr. Beavers and the ATF Team between September 6 – 20 at their own premises. The training included two separate courses: *Loan Interview Process* and *Financial Ratio Analysis* that were delivered sequentially. The first course examined the key determinants of what a strong loan officer is, the main determinant of what kind of loan product is appropriate for a client, how to interview the client to best understand his business, how to reject a client and how to structure loans looking at cash flow, working capital and profit. The second course focused on the 16 main financial ratios for SME lending, the core five ratios within those, and a case study of a fictional company whereby the trainees calculated and analyzed the ratios and then voted to either approve or reject the loan application. Over 60 financial specialists attend the training between the four PFIs. As with the High Tech training, courses are only the first step and continued support from the ATF team to institutionalize the training and increase lending activity in the sectors.

Agricultural Loan Product Development began on September 17 via EDMC STTA from Janet Buresh, an agricultural credit expert, and the ATF Team. This intervention is for the Goodcredit UCO to help them develop a portfolio of agricultural loans to mainly small farmers. This supports the EDMC sector of Fruits/Vegetables/Herbs and expanded the EDMC partnership to a fourth Armenian financial institution. The STTA from Ms. Buresh is scheduled to run through October 1, and will result in a pilot launch of a new agricultural loan product from Goodcredit.

The *Cash-flow Based Product Development* began on September 17 via EDMC STTA from Roger Keighley, a cash-flow based loan product expert, and the ATF Team. This intervention is for the three bank PFIs to develop and offer two new credit products which are not based on securitization from real estate collateral (a cash-flow based product and Purchase Order-based product). Both products, if successfully introduced and scaled up – and copied by other banks in time – would reduce a significant constraint to SMEs accessing credit. The STTA from Mr. Keighley is scheduled to run through December 2, and will result in a pilot launch of the new loan products from ABB, Unibank and Araratbank.

SME Reporting Systems support is meant to allow the three bank PFIs to generate better SME portfolio reports so as to allow them to improve their Marketing and Outreach to SMEs, reduce portfolio risk and increase profitability and reduce costs. This TA is being implemented by the ATF Team and began with collection of the current portfolio reports that the three banks are producing on a regular basis. Once this is collected a data analysis and needs plan will be developed to use in design in a new SME report package. Some STTA will be needed for work with the two Armenian MIS companies and the banks to assess and adapt the MIS systems to the new reports.

4.1.7 Determine level of financing between PFIs and the sectors / 4.1. Enable the SMEs or “anchor firms” in the VCs or sectors to obtain financing from the PFIs or intra-chain links

As part of the partnership agreement between EDMC and the three PFIs, the ATF team began tracking and documenting the financial transactions between them and enterprises in the four target sectors. For the six-month period from March – August, the **three PFIs conducted 77 transactions totaling \$6,505,198 to enterprises in the sectors**. By comparison, the Year One target was \$4.2 million and 75 transactions for the twelve month period to September 30. While these results are a good start, it should be noted that once the core technical assistance is provided to the PFIs on new product development, SME lending underwriting and marketing, and training to SMEs, the volume of transactions is expected to increase. In addition, the addition of Goodcredit as a PFI will lead to even greater financing provided.

Analytically, the following can be seen regarding the performance of the three PFIs so far. Though through June the majority of transactions were made by Araratbank and ABB, with Unibank trailing behind, by the end of August the gap has closed and all three banks were between \$1.9 and \$2.4 million in EDMC portfolio, with Araratbank at the high end. The earlier issue with Unibank appeared to be a reporting problem, rather than a lack of output. With these figures, the average loan size is about \$85,000, which is higher than the projected \$50,000 average in the Technical Proposal. However, this is quite common in loan portfolio projections done by financial institutions.

Looking at the sectors themselves, the vast majority of the transactions were provided to the Hospitality sector – about 68% of the total – which is a marked improvement from the third quarter, where it accounted for 95% of the total EDMC portfolio. This diversification into the other sectors is a direct result from guidance and support from EDMC. High Tech continues to be the least financed sector, while F/V/H now accounts for 19% of the total.

Additionally, the ATF Team held direct consultations with two FVH sector potential anchor firms, the Konser Cannery and the Maga Cannery, for finding a solution for their current financial needs and helping them to use appropriate banking products. Both companies are unfortunately in a poor financial situation. For Konser, there is an Armenian court decision which declared them bankrupt for defaulting on a \$1 million loan from the GoA (which is being appealed by Konser). For Maga, they defaulted on a loan from the CARD Agrocredit UCO (more than \$100,000) and thus they are included in the black list of the UCO, and the owner’s bad credit history is located on ACRA Credit Bureau database. Given this, it will be nearly impossible for either company to receive financing from any institution in Armenia.

4.2.1 Lower Financing Risks

4.2.2 Develop and implement an action plan for increasing access to credit guarantees and credit enhancement programs for SMEs in the target sectors

USAID Development Credit Authority (DCA) – On August 9th new DCA Portfolio Guarantees gained approval by the DCA Credit Review Board for the Portfolio Guarantees to EDMC PFIs Unibank and ABB for FY 12. Each bank will have guarantee coverage for up to \$2,500,000 in sub-loans to SMEs, 75% of which are to be in the four target sectors. Next step is for Agreement signing before September 30th.

EDMC support continued for the GFC UCO in direct relation to the DCA Portable Guarantee that they received in September 2011, which it has been unable to utilize for obtaining financing. On August 10th a discussion was held with the GFC director, the Micro Finance Officer Caucasus, Amber O’Connell, of the Oikocredit social investor of MFIs, EDMC and the USAID ATF Activity Manager regarding steps on GFC securing a loan from Oikocredit. Ms. O’Connell said that the loan application for GFC would be processed with initial feedback in late September.

ADB Women’s SME Support Program – In August a Fact Finding mission came back to Armenia assess the potential partner banks for the \$20 million credit line. The plan is to have the signing of loan agreement with the banks in October. One PFI, Araratbank, was selected by the ADB as a program participant, as ATF promoted the three PFIs to the ADB delegation from Manila during the assessment phase.

Partners for Financial Stability (PFS) - Following-up with the implementing partner Deloitte regarding their Tier One initiative of establishing a State-backed Export Credit Agency (ECA), the ATF Team Leader accompanied the EDMC COR to a major meeting held on July 24 at the Office of Prime Minister of the RA, Tigran Sargsyan. The meeting was held for PFS to present to the PM the assessment/feasibility report on the establishment of an ECA in Armenia. Other notable officials in attendance included: T. Davtyan, Minister of Economy; A. Gharibyan, Chief Advisor of the President of RA; K. Minasyan, First Deputy Minister of Economy; N. Eritsyan, Deputy Chairman of the CBA; L. Hunanyan, Head of the Financial & Economics Division of the Government of RA.

The decision of the meeting was that PFS would present a detailed roadmap which will outline the steps necessary for the creation of the ECA, the work to be performed by the end of the year on weekly basis, as well as statutory papers and a business plan. The report “Establishing an Export Credit Agency in Armenia” was submitted by USAID to the GoA on September 24, and the ATF Team Leader reviewed the document and provided feedback to the ATF Activity Manager.

EBRD Agriculture Program - EDMC PFI, Araratbank, has also signed an agreement this quarter with the EBRD to introduce agricultural loans to farmers in Armenia. The bank expects to start receiving EBRD TA in December, which will accompany their \$7 million of financing from the EBRD (of which a minimum of \$1 million must be used for agriculture loans). This program will complement the EDMC TA and support the F/V/H target sector.

4.2.3 Provide financial management and access training to SMEs in the sectors

During the quarter the ATF developed a plan to bring Financial Education (FE) courses to micro and small enterprises in the four sectors in collaboration with the SME DNC and Grant Thornton with the objective of raising their financial capacity and perceived "creditworthiness". Core topics for the enterprises will include business planning and principles of budgeting; fund raising principles and approaching financial institutions; principles of corporate governance, risk management and internal controls. By raising the SMEs' ability to project cash flows, they will be better able to demonstrate their ability and willingness to repay loans and minimize the need to have real estate collateral.

Leveraging the SME DNC's extensive national network of Centers (they have one each marz) the program will build upon a Training of Trainer (ToT) approach designed by Grant Thornton (GT) to enable the SME DNCs' own staff to deliver the training classes to a targeted minimum of 300 enterprises per year. In addition, it is anticipated that after this initial program that EDMC can open up additional FE training to BDS providers on a competitive grant basis to further expand the FE reach for SMEs and have healthy public-private competition. The ToT course for the SME DNC staff is planned to begin in October, followed by one SME training led by GT for the first time, after which the SME DNC will deliver the trainings.

S1. Registration of representative office of SEAF Management LLC in Armenia

Due to numerous setbacks in the process, a SEAF representative office has not yet been registered in Armenia. The total document package for registration was finally developed as required and submitted to the Central Bank (CBA) on June 27th. One month later, on July 26th we received a letter from the CBA stating that, in fact, SEAF was not a financial institution (as they had originally determined back in January) and that registration was necessary with the State Registrar, rather than the CBA. All the new necessary documents were collected from SEAF headquarters in the U.S., with the support of EDMC Business Environment Improvement Team, and submitted to the State Registrar on September 26th. We expect to receive the SEAF registration in October.

S3. In conjunction with CEED and VC team, identify SME candidates for equity financing according to developed criteria

More than 40 companies have been interviewed during this quarter for equity financing. The SEAF Team is working closely with the VC Team to identify potential candidate companies for its equity pipeline. We are having on average 2-3 interviews of companies per week, and continuously seeking and identifying potential candidate companies. In this regard, SEAF has also done a number of presentations for EDMC partner organizations, such as the SME DNC, Viasfere Technopark, Gyumri Technopark, all partner banks and partner Investment Company – Armenbrok, the EIF and ADA. As a result we are getting more and more references from these organizations. The identified and interviewed companies are then being screened according to the criteria of SEAF and EDMC.

S4-S5. Conduct brief analysis and thorough financial due diligence for the identified SMEs

If the companies identified pass the screening procedure and comply with the initial requirements and criteria of SEAF and EDMC, they are shifting up to a new stage of the procedure, which is a brief analysis of the company. This includes a quick analysis of their historical financial statements, ratio analysis, an assessment of their managerial capabilities, asset base, indebtedness, a review of some legal documents and brief market research. For this purpose, SEAF has developed a questionnaire / application form that companies need to fill in and submit. The questionnaire includes all the information that is needed for the preliminary assessment of the company with respect to their historical operational results and future prospects.

A total of ten new equity applications were received during this quarter; of which six are from the EDMC value chains. The ten applicant companies were:

- Emy Fruit (Fish breeding)
- CIT IT Park (High Tech/real estate)
- Furniwood (Import of furniture parts, production of furniture)
- Good Credit UCO
- Bi Line (High Tech)
- Idram (High Tech)
- Jermuk Eghnik (Hospitality)
- 365 Wines (Food processing)
- Rumea (Hospitality/Tour Operator)
- Konser (FVH/Cannery)

After a brief analysis of the applications, three of them (CIT IT Park, Jermuk Eghnik and Konser) were rejected, as they didn't correspond to SEAF financing criteria. In the case of CIT IT Park, the amount of SEAF equity investment they intended to use for the refinancing of current debt was unacceptable, the questionnaire for application submitted by Jermuk Eghnik was incomplete with significant missing information which prevented the Team from evaluating the feasibility of the investment project, and finally Konser is in a financial default situation. Four companies are still pending on some additional documents that were required by us, and the remaining three (Emy Fruit, Furniwood, Idram) have moved onto Stage 2 in the pipeline - which is Initial Business Analysis and Due Diligence.

The Team has submitted Investment Memos (Stage Three) for two projects, which is the final step in the process prior to submission to the SEAF Investment Committee. One of them, the New Force company – an importer and distributor of Nestle products - is at the closest stage of making an equity investment, and is for a value of \$2.5 million. For the other project, the establishment of a pig breeding farm, the SEAF Georgia office is seeking a co-financier(s), as the investment amount is beyond the limit that CGF is able

to invest. Finally, an Investment Memo for \$1 million is in the process of being developed for a third company, Instigate Design, a High Tech/engineering company, which will be finalized at the beginning of the next quarter.

S13. Identifying legal issues that affect equity fund management and working with the EDMC LRT to address them

A task worksheet for conducting a feasibility study on equity investments was developed by the SEAF Team. However, we are preparing to review a new World Bank study on venture capital funding in order to avoid overlaps in our study. During the process of registering the representative office, SEAF has identified a number of legal issues that can affect Fund operations in Armenia. However those issues are not yet systematically catalogued, as the feasibility study will give a more thorough view on these issues. The feasibility study will address other issues as well, including but not limited to:

- Armenian regulatory environment
- Country risk and country profile
- Investment opportunities and demand analysis: preliminary analysis of sectors
- Potential transactions and deal flow
- Potential fund investors: preliminary analysis of their requirements and interest, stages for the establishment of a private equity / venture capital fund in Armenia

It is planned that Grant Thornton CJSC will conduct the feasibility study on equity investments.